

Fund description

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy assets outside the common monetary area (CMA) up to a maximum of 35% of the Fund (with an additional 5% for Africa ex-CMA). The Fund typically invests the bulk of its foreign ex-Africa allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 40% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund or a balanced fund.

Fund objective and benchmark

The Fund aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Fund's benchmark is the daily interest rate, as supplied by Standard Bank Namibia Limited, plus 2%.

How we aim to achieve the Fund's objective

A major portion of the Fund is typically invested in money market instruments. We seek to deploy the Fund's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares, we may allocate a low weight to shares or partially hedge the Fund's stock market exposure in consideration of the Fund's capital preservation objectives. The Fund may also invest in bonds, property and commodities. The Fund's bond and money market investments are actively managed.

Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a unit trust that complies with retirement fund investment limits

Minimum investment amounts

Minimum lump sum per investor account	N\$20 000
Additional lump sum	N\$500
Minimum debit order	N\$500

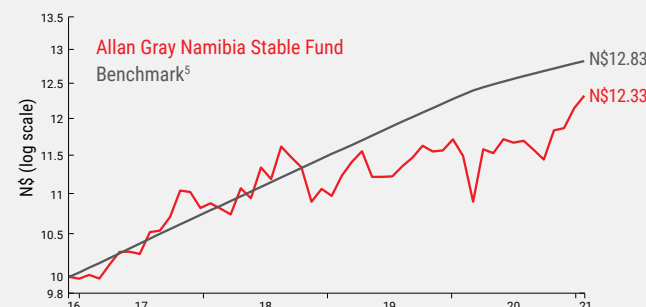
Fund information on 28 February 2021

Fund size	N\$156.5m
Price	N\$1 086.20
Number of share holdings	44
Class	A

- Maximum percentage decline over any period. The maximum drawdown occurred from 31 January 2020 to 31 March 2020. Drawdown is calculated on the total return of the Fund (i.e. including income).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
- These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 June 2018 and the benchmark's occurred during the 12 months ended 31 December 2017. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 28 February 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.
- The daily interest rate, as supplied by Standard Bank Namibia Limited, plus 2%. Performance as calculated by Allan Gray as at 28 February 2021.

Performance (N\$) net of fees and expenses

Value of N\$10 invested at inception with all distributions reinvested



% Returns	Strategy	Benchmark ⁵
Cumulative:		
Since inception (5 December 2016)	23.3	28.3
Annualised:		
Since inception (5 December 2016)	5.1	6.1
Latest 3 years	4.4	5.7
Latest 2 years	4.7	5.2
Latest 1 year	7.2	4.0
Year-to-date (not annualised)	3.8	0.6
Risk measures (since inception)		
Maximum drawdown ¹	-6.9	n/a
Percentage positive months ²	58.8	100.0
Annualised monthly volatility ³	6.9	0.3
Highest annual return ⁴	10.5	6.9
Lowest annual return ⁴	-4.5	4.0

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus quarterly.	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020
Cents per unit	752.5069	1300.7963	773.4382	705.6174

Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark. If the Fund's return over two years is equal to or less than 0%, Allan Gray will not charge a fee.

Fee for performance equal to the Fund's benchmark: 1.00% p.a.*

For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:

Maximum fee: 1.50% p.a.*

Minimum fee: 0.50% p.a.*

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark.

*Management fees charged for the management of unit trust portfolios do not attract VAT.

Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of actual expenses incurred by a fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

Top 10 share holdings as at 31 December 2020 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers ⁶	3.5
British American Tobacco	3.2
Glencore	2.3
FirstRand Namibia	1.7
Taiwan Semiconductor Mfg.	1.6
Oryx Properties	1.4
Namibia Breweries	1.4
SPDR Gold Trust	1.4
Samsung Electronics	1.3
NetEase	1.0
Total (%)	18.7

6. Including stub certificates and Prosus NV.

Top credit exposures on 31 December 2020 (updated quarterly)⁷

Issuer	% of portfolio
Republic of Namibia	31.2
Republic of South Africa	2.4
Standard Bank(Nam)	2.0
Bank Windhoek	1.5
Total (%)	37.0

7. All credit exposure 1% or more of portfolio.

Asset allocation on 28 February 2021

Asset Class	Total	Namibia ^{8,9}	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	35.8	7.5	12.2	0.8	15.2
Hedged equity	14.2	0.0	3.6	0.0	10.6
Property	3.1	1.6	1.4	0.0	0.1
Commodity-linked	4.5	3.1	0.0	0.0	1.4
Bonds	33.7	26.1	0.1	2.6	4.8
Money market and cash	8.9	5.7	0.5	0.7	2.0
Total (%)	100.0	44.0	17.8	4.1	34.1

8. 3.9% invested in companies incorporated outside Namibia but listed on the NSX.

9. The exposure below the limit was caused by market value movements.

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2020	1yr %	3yr %
Total expense ratio	0.64	1.04
Fee for benchmark performance	1.05	1.10
Performance fees	-0.53	-0.19
Other costs excluding transaction costs	0.12	0.13
Transaction costs	0.07	0.11
Total investment charge	0.71	1.15

Note: There may be slight discrepancies in the totals due to rounding.

2020 was a volatile year for markets. It is worth reviewing the objectives of the Fund and assessing how it has performed over this tough period.

The Fund aims to:

- Provide a high degree of capital stability
- Minimise the risk of loss over any two-year period
- Produce long-term returns better than bank deposits and inflation

In 2020 these objectives were only partially met. The value of capital invested in the Fund was much more stable than that of a typical balanced or equity fund, but likely more volatile than investors would expect and prefer. The JSE and global markets fell by around one-third during February and March 2020. At 31 March 2020, the Fund had its worst one-year rolling return of -4.5%, which was a disappointing outcome. The intra-month drawdown was larger, but fortunately lasted only a few days. The two-year rolling return was still positive, albeit below inflation. The Fund's conservative liquidity position enabled it to take advantage of opportunities during this time. As at 31 December 2020, the Fund had returned 3.6% p.a. over the past two years and 4.3% p.a. since inception. This is better than inflation and bank deposits over both periods, but behind the benchmark – which is cash +2% – and certainly lower than the level of return we aim to achieve.

The Fund's history is very short. For a longer history, it makes sense to look at its South African counterpart, which turned 20 in 2020. Since inception, it has generated returns of 5.8% p.a. after inflation, creating substantial wealth for clients, while taking relatively low risk. There have been periods of very high returns, such as 2005-2006, when the South African market performed strongly, and the shares owned by the Fund performed even better. Mid-2014 to mid-2016 is an example of a tough period for the Fund, where returns from both the FTSE/JSE All Share Index and the FTSE/JSE All Bond Index were lower than cash. The Allan Gray Namibia Stable Fund has a high degree of flexibility to invest in different asset classes, but is not completely immune to market movements. Risk is managed by an overall conservative approach, e.g. a maximum allocation of 40% to equities, a low-duration position in bonds, and maintaining a high allocation to cash and liquid instruments.

What do we expect for future returns from here?

Compared to history, the current opportunities available to the Fund look very attractive. Five years ago, Southern African bonds and shares were both relatively expensive. Subsequent market returns were disappointing, and cash ended up being one of the best investments over this period, helped by high cash interest rates.

Looking forward, the picture is reversed. Cash interest rates on one-year instruments are now low, at around 4%, similar to inflation – although inflation was lower at 2.2% in 2020. The rate is even lower on call accounts. Holding cash is therefore unattractive, as it puts an investor at risk of losing purchasing power in inflation-adjusted terms. In contrast to five years ago, local bonds and shares are now relatively cheap. In contrast with developed markets, Namibian longer-dated bonds offer very high real yields. For example, a 10-year Namibian government bond yields 9.1%. The Fund has used some of its cash to increase the bond position. The prospect for future returns from shares also looks promising. While South Africa and Namibia clearly face numerous risks, our investment team is finding many attractively valued businesses to invest in. There is a high probability that the return from shares should also exceed cash over the next five years.

Overall, this makes us cautiously optimistic for future returns from this starting point. There are, of course, various risks to consider. A key consideration of the Fund is that potential returns from attractive opportunities should be balanced with protecting against the various things that could go wrong. For example, the Fund maintains a 32% weight in offshore assets, which protects against the risk of the Namibian dollar weakening. Meanwhile, it also holds some inflation-linked bonds, which will do well if Namibia experiences high inflation.

Commentary contributed by Tim Acker and Birte Schneider

Fund manager quarterly commentary as at 31 December 2020

Management Company

Allan Gray Namibia Unit Trust Management Company is an approved Management Company in terms of the Unit Trusts Control Act, 1981 amended. Incorporated and registered under the laws of Namibia and is supervised by Namibia Financial Institutions Supervisory Authority. The trustee and custodian is Standard Bank Namibia.

Unit price

Unit trust prices are calculated daily on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio divided by the number of units in issue.

Performance

Unit trusts are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Where annualised performance is mentioned, this refers to the average return per year over the period.

Calculations

Calculations are based on actual data where possible and best estimates where actual data is not available.

Total expense ratio (TER) and Transaction costs

The TER and Transaction Costs cannot be determined accurately because of the short lifespan of the Fund.

MSCI Index

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FTSE/JSE All Share Index and FTSE/JSE All Bond Index

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Important information for investors

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website www.allangray.com.na or call 061 221 103